

Message Text

CONFIDENTIAL

PAGE 01 MANILA 03514 260429Z

12

ACTION EA-14

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C O N F I D E N T I A L MANILA 3514

E.O. 11652: GDS

TAGS: ETRD, EAGR

SUBJECT: SUGAR: PHILIPPINE INTENTIONS

REF: A. MANILA 2641; B. MANILA 2424; C. STATE 53019

1. BEGIN SUMMARY: PRESIDENT MARCOS APPEARS TO HAVE CONCLUDED THAT WORLD SUGAR SHORTAGE WILL BE PROLONGED AND THAT PHILIPPINES' BEST INTERESTS LIE IN EXPANDING CANE OUTPUT AND CONSTRUCTING FIVE NEW MILLS. MARKETING STRATEGY CALLS FOR CONTINUED PROVISION FOR U.S. MARKET AS MAIN MARKETING BASE, (STRONGLY ARGUED IN PHIL NOTE OF MARCH 12) WITH EXPANSION INTO WORLD MARKET AS OUTPUT INCREASES. END SUMMARY.

2. BELIEVE FOLLOWING MARCOS SPEECH (REFTEL A) AND DISCUSSIONS GOVERNMENT OFFICIALS, OUTLINES OF PHILIPPINE THINKING ON SUGAR ARE FAIRLY CLEAR. MARCOS PROCEEDS FROM STARTING POINT THAT CURRENT SUGAR SHORTAGE IS LONG TERM. HE ENUNCIATED THIS VIEW CLEARLY IN MARCH 4 SPEECH, FULL TEXT POUCHED EA/PHL, STATING, "THE PREDICTION IS THAT, IN THE NEXT TEN YEARS, THE PRESENT TIGHTENED SITUATION IN SUGAR WILL DEGENERATE INTO A CRITICAL SHORTAGE...BY THE 1980'S WE

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PAGE 02 MANILA 03514 260429Z

WILL BE CONSUMING (I.E. WORLD CONSUMPTION) ABOUT A

HUNDRED MILLION TONS OF SUGAR." SUBSEQUENTLY, HE STATED, "THIS IS GOING TO BE A SELLER'S MARKET FOR THE NEXT SEVERAL YEARS, SOME SAY FIVE, I SAY TEN YEARS... IF THAT IS SO, THEN LET US EXPLOIT THIS PARTICULAR OPPORTUNITY AND INCREASE OUR SUGAR PRODUCTION."

3. PRODUCTION INCREASES FORM IMPORTANT PART OF MARCOS STRATEGY AND ARE LINKED TO PHILIPPINE NEED TO EXPAND FOREIGN EXCHANGE EARNINGS IN WAKE OF PETROLEUM PRICE HIKES. HE ENVISAGES IN NEAR TERM AN INCREASE IN LAND AREA PLANTED TO SUGAR, INCREASED UTILIZATION OF EXISTING MILLS, AND ADDITION OF FIVE NEW MILLS.

4. U.S. MARKET CONTINUES PLAY CENTRAL ROLE IN MARKETING STRATEGY. REASONS ARE OBVIOUSLY MORE COMPLEX THAN THEY WERE, AS INDICATED IN PHIL NOTE OF MARCH 12. IN PART THERE IS EXPECTED PREFERENCE FOR STICKING WITH TRIED AND TRUE RATHER THAN VENTURING INTO UNKNOWN. IN PART POSITION REFLECTS AWARENESS THAT PREDICTIONS OF LONG-TERM MARKET TIGHTNESS COULD BE WRONG. IN PART ATTITUDE SEEMS INFLUENCED BY BRAZILIAN ACTIONS IN RAPIDLY EXPANDING SHIPMENTS TO U.S. DESPITE HIGHER WORLD MARKET PRICES. AT ANY RATE, SIGNALS FROM SUGAR LEADERSHIP, FROM MARCOS ON DOWN ARE THAT PHILIPPINES WISHES TO BE SECURE IN REGARDING U.S. MARKET SHARE OF 1,500,000 TONS AS A GIVEN, A MARKET BASE FROM WHICH TO PROCEED AS IT EXPANDS PRODUCTION AND SEEKS ADDITIONAL MARKETS.

5. LOW KEY LOBBYING EFFORTS WHICH DEPARTMENT HAS NOTED FOLLOW LOGICALLY FROM ASSUMPTION OF LONG-TERM MARKET TIGHTNESS. SINCE PHILIPPINES HAS COMPILED CREDITABLE RECORD IN MEETING U.S. QUOTE COMMITMENTS; SINCE PHILIPPINES IS CURRENTLY BEING ASKED TO SUPPLY AT LEVEL WHICH HAS NOW REACHED 1.6 MILLION TONS; AND SINCE CURRENT MARKET TIGHTNESS SEEMS LIKELY TO PREVAIL AT LEAST FOR LIFE OF CONTEMPLATED SUGAR LEGISLATION, GOP MAY WELL WONDER WHY A CONCERTED LOBBYING EFFORT WOULD BE CONSIDERED NECESSARY. IN THIS VEIN PHILS COULD WELL CONCLUDE THAT U.S. COULD NOT POSSIBLY BE SO LACKING IN GENUINE SELF-INTEREST AS TO PASS UP CHANCE TO ACQUIRE

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 MANILA 03514 260429Z

PHILIPPINE SUGAR.

6. LOW KEY PHILIPPINE APPROACH SHOULD NOT, THEN, BE MISTAKEN FOR LACK OF INTEREST IN U.S. MARKET OR LACK OF PLANNING FOR OR INTENT TO FILL U.S. QUOTA. PHILIPPINES HAS SIMPLY CONCLUDED THAT U.S. NEEDS ITS SUGAR AS MUCH AS IT NEEDS U.S. MARKET AND THAT LOGICAL MEN IN BOTH COUNTRIES WILL SEE THIS CLEARLY.

7. DECISION TO BUILD FIVE NEW MILLS, WHICH MARCOS PUBLICLY ANNOUNCED IN SPEECH, IS A LONG-TERM DECISION BECAUSE OF LEAD TIME. BECAUSE EXISTING MILLS ARE UNDERUTILIZED, MARCOS APPEARS TO BE IMPLICITLY ASSUMING THAT FORESEEABLE INCREASES IN U.S. IMPORT REQUIREMENTS CAN BE MET FROM EXPANDED USE OF EXISTING CAPACITY AND THAT NATURAL OUTLET FOR OUTPUT FROM NEW MILLS WILL BE WORLD MARKET.

8. REQUIREMENT WHICH MARCOS ENUNCIATED THAT SUPPLIERS OF NEW MILLS MUST PROVIDE FINANCING AND TAKE OUTPUT AT WORLD PRICES IS LOGICAL IF WORLD PRICES ARE EXPECTED TO REMAIN HIGH. AND IF THE FINANCING PACKAGE INCLUDES REPAYMENT FROM OUTPUT, AS JAPANESE FINANCING OFFERS FREQUENTLY DO, THEN THE RISK OF A BREAK IN WORLD PRICES WOULD BE TRANSFERRED TO THE EQUIPMENT SUPPLIER.

9. EFFECT OF THIS REQUIREMENT, HOWEVER, IS TO GREATLY INCREASE PROSPECTS FOR JAPANESE SUPPLIERS. BASED ON PAST EXPERIENCE AND EVALUATION OF FUTURE MARKET PROSPECTS, MARCOS MAY WELL BELIEVE THAT ANY RESENTMENT WHICH THIS MAY GENERATE IN U.S. CONGRESS CAN BE DEALT WITH WITHOUT DETRIMENT TO PHILIPPINE SHARE OF U.S. MARKET. IN THIS REGARD, HE MAY BANK MORE HEAVILY THAN HE SHOULD ON THE U.S. CONGRESS SHARING HIS MARKET APPRAISAL AND PUTTING OTHER TRADITIONAL SOURCES OF FRICTION ASIDE. IN ANY EVENT, HE CLEARLY FEELS FREER TO GO INTO THE MARKET AND SEEK BEST TERMS FOR NEW MILLS. THERE ARE IN ADDITION, HOWEVER, REPORTS THAT MALACANANG HAS ALREADY SELECTED MILLS TO BE APPROVED, AND THAT ONE OF THESE IS CAIDECO, CAVITE MILL WHICH PROPOSES UTILIZE U.S. FIRMS PROCON AND FULTON IRON WORKS. PROCON
CONFIDENTIAL

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PAGE 04 MANILA 03514 260429Z

REPRESENTATIVE FROM TAIWAN NOW IN MANILA FOR FURTHER EXPLORATION ITS PROSPECTS.

10. AS FINAL NOTE, OUTLINES OF MARCOS STRATEGY FOR SUGAR SEEM TO ANTICIPATE A WORLD MARKET SETTING IN WHICH PHILIPPINES WILL NO LONGER BE EXCLUSIVELY THE SUITOR BUT IN WHICH ITS TRADITIONAL RELATIONSHIPS WILL BE MAINTAINED AND REINFORCED IF POSSIBLE.
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